Fed Cuts Rates and the Stock Market Rally Continues in the Face of Economic Uncertainties

November 7, 2019

The 2019 bull market worked its way higher in the third quarter as the Federal Reserve continued to cut the Fed Funds rate in the face of mounting economic uncertainties and the potentially negative impact of the yield curve inverting. Bond and gold prices also moved higher as investors increased their hedges against economic and political concerns. Oil traded lower for the quarter, but was still up for the year as global supply disruptions, including an attack on Saudi Arabian oil fields in September, were counter-balanced by supply increases in the U.S. and questions about oil demand if the economy falls into recession.

The bull market for stocks remains on track so far in the fourth quarter as earnings have been coming in better than expected for most companies and the Fed has cut the Fed Funds rate again. For these same reasons bonds have given back some of their gains, oil prices have worked their way higher, and gold has gone sideways.

There’s a saying on Wall Street that “Bull markets climb a wall of worry.” That has been the case this year as there have been plenty of arguments for selling stocks – from trade wars, political turmoil, to yield curve inversions, to name a few – yet the S&P 500 has rallied almost 25% (total return) through the close yesterday, November 6. The mistake many investors make is that they tend to focus on issues that may have a short-term impact on stock prices, but aren’t necessarily material to the long-term performance of corporate earnings. Historically, severe yield curve inversions have been the only factor resulting in severe recessions and major bear markets. Now that the Fed is backing away from creating a severe yield curve inversion, the odds are that stock prices will work their way higher for the foreseeable future. There will, of course, be sell-offs from time to time based on factors that are not material to corporate earnings, but as we have seen over the last ten years, they will turn around very quickly. Contrary to popular opinion, bear markets (~20%) are rare on an annual basis. From 1942 through 1972 (31 years) the S&P 500 had no bear market years and had only five down years (the worst year was -10.8% in 1957). From 1975 through 1999 (25 years) the S&P 500 had no bear market years and had only three down years (the worst year was -7.2% in 1977). Admittedly, some of those years were very volatile, such as 1987, but by the end of the year they were either up or just slightly down.

Until our proprietary yield curve indicator gives a sell signal, long-term returns should benefit by staying fully invested through the short-term ups and downs of the stock market.

### COMPARISON OF INVESTMENT RESULTS

<table>
<thead>
<tr>
<th>Martin Capital Advisors¹</th>
<th>S&amp;P 500</th>
<th>Russell 3000</th>
<th>Barclays Aggregate Bond Index</th>
<th>3 Month T-Bill</th>
<th>Consumer Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total²</td>
<td>2451.1%</td>
<td>1534.4%</td>
<td>1596.5%</td>
<td>413.1%</td>
<td>108.7%</td>
</tr>
<tr>
<td>Avg.³</td>
<td>11.9%</td>
<td>10.2%</td>
<td>10.3%</td>
<td>5.9%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

¹Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors’ Flexible Growth Portfolios.
²Total compounded return, including reinvestment of dividends and interest.
³1991-2019 annualized return.
INVESTMENT RESULTS

January 1, 1991 to September 30, 2019

MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

as of September 30, 2019

2. Intuitive Surgical 539.93  7. IDEXX Laboratories 271.93
3. Starbucks 88.42  8. Visa 172.01
4. MasterCard 271.57  9. Square 61.95

INVESTMENT RESULTS
Martin Capital Advisors’ Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

IMPORTANT DISCLOSURE NOTICE

Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. Martin Capital Advisors, LLP (MCA) composite returns are net of all fees and expenses. From time to time, composite performance may reflect the use of margin investing and options, as well as material investments in bonds and cash, and volatility may differ from that of the benchmark. As of 09/30/2019, the MCA Flexible Growth/Balanced/Conservative portfolios’ returns represent, respectively, 32/6/2 individual portfolios and 67%/20%/3% of all funds under management by MCA. Clients explicitly elect these management styles on their Personal Data Form. The MCA Flexible Growth Portfolios are managed for capital appreciation, and the MCA Balanced and Conservative Portfolios are managed for capital appreciation and income. Independent performance reporting is provided by CGM Investment Management. MCA claims compliance with the Global Investment Performance Standards (GIPS®). MCA has been independently verified for the periods January 1, 1991 to June 30, 2019 by Dabney Investment Consulting Associates, Inc. The verification reports are available upon request. The listed composites contain all fee-paying accounts with an investment strategy as indicated by the composite title. Non-fee paying or nondiscretionary portfolios are excluded from the composites, but are included in the definition of total firm assets. Performance results are expressed in U.S. dollars. To receive a complete list and description of Martin Capital composites and a presentation that adheres to the GIPS standards, contact Darby Ivins at (210) 694-2100, ext. 2, or darby@martincapital.com.

www.martincapital.com
ADDITIONAL DISCLOSURE NOTICE

MARTIN CAPITAL ADVISORS, LLP (MCA) is a registered investment advisor based in San Antonio, Texas, founded in 1989. MCA specializes in managing customized equity and balanced investment portfolios with an all-cap equity strategy to grow capital, as well as balanced strategies to grow capital with less volatility.

MCA claims compliance with the Global Investment Performance Standards (GIPS®).

Returns are shown in U.S. dollars net of fees.

Martin Capital Advisors, LLP has been independently verified for the periods January 1, 1991 to June 30, 2019 by Dabney Investment Consulting Associates, Inc. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

MCA Flexible Growth Portfolios Composite consists of all fully discretionary portfolios that are invested in publicly traded companies with the goal of maximizing long-term returns. These portfolios are classified as an all-cap core strategy, but predominately invest in large and mid-cap stocks, blending the characteristics of both growth and value investing. Each portfolio typically invests in 30 to 40 stocks that are rigorously selected to meet our core philosophy of investing in companies with an enduring competitive advantage that offer growth at a reasonable price. These portfolios are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is the S&P 500 Index, which is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe.

MCA Balanced Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 75% equities and 25% fixed income. These portfolios are for investors with a long-term investment horizon who seek to grow capital, but want to do so with less short-term volatility than the MCA Flexible Growth Portfolios. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 75% S&P 500 Index and 25% Barclays U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Barclays U.S. Aggregate Bond index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

MCA Conservative Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 50% equities and 50% fixed income. These portfolios are for investors who prefer to significantly reduce short-term volatility in their investments rather than maximize long-term returns. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 50% S&P 500 Index and 50% Barclays U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Barclays U.S. Aggregate Bond index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

Since inception these strategies have had no material use of leverage, derivatives, or bonds on the composite level.

To receive a list of composite descriptions of MCA and/or a compliant presentation, contact Darby Ivins at (210) 694-2100, ext. 2, or darby@martincapital.com.